

Message Text

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ACTION SS-25

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C O N F I D E N T I A L GEORGETOWN 2253

EXDIS

E.O. 11652: GDS

TAGS: EINV, EMIN, GY

SUBJECT: REYNOLDS

DEPARTMENT ALSO PASS OPIC FOR MAYS

1. SUMMARY: DECEMBER 30 MORNING SESSION BROUGHT BIGGEST MOVEMENT TO DATE IN GOG POSITION WITH APPARENT ACCEPTANCE BOTH OF BOTTOM LINE WHICH WILL FULLY COVER INSURANCE PAYOUT AND EIGHT AND ONE HALF PERCENT NET INTEREST RATE. NEXT MEETING WITH PRIME MINISTER 5 P.M. TODAY. BELIEVE ONLY ONE SIGNIFICANT ISSUE REMAINS OPEN--GOG INSISTANCE THAT CURRENT PROFITABILITY OF REYNOLDS OPERATIONS WONT SUPPORT PAYMENT SCHEDULE OPIC SEEKS. COUNTERPROPOSAL BY GOG FOR REDUCING PAYMENT LEVELS IN FIRST FIVE YEARS SHOULD BE DELIVERED PRIOR TO 5 P.M. MEETING. END SUMMARY.

2. GOLDBERG PRESENTED NEW OPIC PROPOSAL TO PM MONDAY A.M. BOTTOM LINE DOLS 10 MILLION (DOLS 14.5 MILLION FOR ASSETS, PLUS DOLS 2 MILLION REFUND ON BACK TAX CLAIM LESS DOLS 6.5 MILLION FOR COMBINED PRODUCTION LEVY AND 1974 INCOME TAX, AFTER DEDUCTING DOLS 400,000 INCOME TAX ALREADY PAID). PAYMENT OVER 13 YEARS AT EIGHT AND ONE HALF PERCENT NET INTEREST. OPTION OF GOG TO ROLL OVER ONE-HALF OF PRINCIPAL ANY OF FIRST SIX SEMI-ANNUAL INSTALLMENTS FOR TWO YEARS BY GIVING NEW NOTE BEARING LONDON INTERBANK RATE AS OF THAT INSTALLMENT DATE. GOG TO PAY EXTRA DOLS 376,000 FROM TAX ESCROW TOWARD PENSION FUNDING.

3. IN MORNING SESSION GOG INDICATED POSITION CAME UP FROM DOLS 8.5 MILLION BOTTOM LINE, NET SIX PERCENT INTEREST AND DOWN FROM
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15 YEARS TERM TO OPIC PROPOSAL FIGURES. HEATED REJECTION OF

INTEREST

FEATURE.

4. NMUCH TIME SPENT BY GOG PUSHING CONCEPT OF PAYMENT SCHEDULE MATCHED TO ABILITY TO PAY FROM OPERATIONS (THOUGH NOTES ARE GOG OBLIGATIONS) AND FACT THAT WITH ACCEPTANCE OF 8 1/2 PERCENT RATE,, OPIC SHOULD NOT BE BOTHERED BY LIGHTENING EARLY YEAR PAYMENTS SO LONG AS SCHEDULE MAINTAINED DOLS 10 MILLION PRESENT VALUE. RESPONSE WAS THAT GOG REALLY CAN EARN MORE OUT OF REYNOLDS PROPERTIES THAN PAST EARNINGS AND THAT, ANYWAY, WE DONT REGARD CASH-FLOW PROBLEMS OF NATIONALIZING GOVT WITH SAME SYMPATHY WE WOULD THOSE OF A PROJECT BORROWER. LIMITED ROLL-OVER PROVISION WAS OUR EFFORT TO MAKE SOME CONCESSION, AND JUSTICE GOLDBERG HAS SOLICITED GOG'S "BEST PROPOSAL" ON THIS ITEM AS KEY TO REACHING AGREEMENT.

5. GOG PROPOSAL OF LATE YESTERDAY ON PAYMENT SCHEDULE WOULD HAVE HAD OPIC (REPEAT, OPIC) GIVE DOLS 4.5 MILLION OF ITS 8 1/2 PERCENT NOTES PAYABLE OVER 15 YEARS. NET EFFECT OR OBJECT WAS OFFSETTING PAYMENTS AND EFFECTIVE THREE-PLUS YEAR GRACE ON COMPENSATION PAYMENTS. HUNT IMMEDIATELY ADVISED JUSTICE GOLDBERG THAT SUCH MORATORIUM AND DIRECT ASSOCIATION OF OPIC WITH LEVY PAYMENT ARE UNACCEPTABLE.

6. JUSTICE GOLDBERG WILL TRY TO REACH MAYS LATER TODAY IF GOG COUNTER PROPOSAL SEEMS TO MERIT SERIOUS CONSIDERATION. TUNT IS ENCOURAGED BY GOG MOVEMENT AND FEELS THAT FAILURE TO REACH AGREEMENT NOW LIKELY TO MEAN LONG AND UNCERTAIN COURSE OF RESORT TO LEGAL SPARRING WITH GOG OVER COMPLICATED FACTUAL AND LEGAL ISSUES. HUNT ALSO FEELS THAT GOG FEARS OF INABILITY TO PAY ARE PROBABLY FAIRLY GENUINE (SIGNIFICANTLY THOMPSON AND PARRIS OF GUYBAU TODAY TOOK LEAD IN NEGOTIATIONS, CONCENTRATING ON THIS ISSUE). ON OTHER HAND, TOO LARGE OR OBVIOUS A MOVE TOWARD GRACE PERIOD OR LOW EARLY PAYMENTS COULD HAVE HEAVY PRECEDENT COSTS, AND NOT MUCH IN PROSPECTIVE GUYANA DEAL MERITS GREAT CONCESSION--ASIDE, PERHAPS, FROM VERY DIFFICULTY OF GETTING ANY DEAL.
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